

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.
MYRTLE BEACH, SOUTH CAROLINA

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Year Ended December 31, 2008 and 2007

**OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.
MYRTLE BEACH, SOUTH CAROLINA**

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Andrew C. Thompson, CPA

Certified Public Accountant and Auditor

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Members
Ocean Dunes Villas Condominium Association, Inc.
Myrtle Beach, South Carolina

We have audited the accompanying balance sheet of The Ocean Dunes Villas Condominium Association, Inc. as of December 31, 2008 and 2007, and the related statements of revenues and expenses, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Association's Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ocean Dunes Villas Condominium Association, Inc. as of December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Myrtle Beach, South Carolina
June 15, 2009

Andrew C. Thompson, CPA

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEETS
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash - undesignated (Note 2)	\$ 14,426	\$ 19,170
Cash - designated for future major repairs and replacements (Notes 2 and 5)	36,833	46,178
Assessments receivable, net of allowance (Note 3)	4,393	2,333
Prepaid expenses	29,200	29,250
Utility deposits	350	350
TOTAL ASSETS	\$ 85,202	\$ 97,281
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$ 631	\$ 1,965
Prepaid member assessments	2,574	4,606
TOTAL LIABILITIES	3,205	6,571
MEMBERS' EQUITY		
Undesignated	45,164	44,532
Designated for future major repairs and replacements (Note 5)	36,833	46,178
TOTAL MEMBERS' EQUITY	81,997	90,710
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 85,202	\$ 97,281

SEE REPORT OF INDEPENDENT AUDITORS

The accompanying Notes to Financial Statements are an integral part of these financial statements.

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended December 31, 2008 and 2007

	2008	2007
REVENUES		
Regular assessments (Note 3)	\$ 178,747	\$ 175,484
Fines and late charges	1,118	350
Interest income	376	2,521
Miscellaneous income	257	-
TOTAL REVENUES	180,498	178,355
EXPENSES		
Repairs and maintenance		
Contract building and grounds maintenance	34,125	34,648
Elevator maintenance	4,233	5,977
Fire system maintenance and repairs	2,236	2,957
General repairs and maintenance	1,673	472
Landscaping maintenance and supplies	1,999	897
Pest control and termite treatment	430	410
Pool maintenance and supplies	3,810	3,035
Contingency expenses	11,204	-
Total repairs and maintenance expenses	59,710	48,396
General and administrative		
Administrative and meeting expenses	282	813
Insurance	55,994	54,796
Professional fees - legal and accounting services	650	580
Management services	7,356	7,009
Office supplies and expenses	1,137	863
Total general and administrative expenses	65,419	64,061

(Continued)

SEE REPORT OF INDEPENDENT AUDITORS

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OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended December 31, 2008 and 2007

(Continued)

	<u>2008</u>	<u>2007</u>
EXPENSES (Continued)		
Utilities		
Electricity	\$ 4,990	\$ 4,937
Internet service expenses	3,366	-
Telephone	75	30
Water, sewer, and disposal	<u>16,760</u>	<u>21,435</u>
Total utilities expenses	<u>25,191</u>	<u>26,402</u>
Major repairs and replacements (Note 5)	<u>30,871</u>	<u>58,294</u>
Total major repairs and replacements	<u>30,871</u>	<u>58,294</u>
Other expenses		
Security expense	879	863
Bad debt expense (Note 3)	6,771	-
Advance payment discounts	189	185
Taxes and licenses (Note 4)	<u>181</u>	<u>752</u>
Total other expenses	<u>8,020</u>	<u>1,800</u>
TOTAL EXPENSES	<u>189,211</u>	<u>198,953</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$ (8,713)</u>	<u>\$ (20,598)</u>

SEE REPORT OF INDEPENDENT AUDITORS

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

**STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2008 and 2007**

	<u>Undesignated</u>	<u>Designated For Future Major Repairs and Replacements</u>	<u>Total</u>
MEMBERS' EQUITY, January 1, 2007	\$ 35,994	\$ 75,314	\$ 111,308
Excess (deficiency) of revenues over expenses	(20,598)	-	(20,598)
Allocated to future major repairs and replacements: Assessments, including interest earned on invested funds	(29,158)	29,158	-
Major repairs and replacements	58,294	(58,294)	-
MEMBERS' EQUITY, December 31, 2007	44,532	46,178	90,710
Excess (deficiency) of revenues over expenses	(8,713)	-	(8,713)
Allocated to future major repairs and replacements: Assessments, including interest earned on invested funds	(35,133)	35,133	-
Major repairs and replacements transfers	27,068	(27,068)	-
Transfers to operating (Note 5)	17,410	(17,410)	-
MEMBERS' EQUITY, DECEMBER 31, 2008	\$ 45,164	\$ 36,833	\$ 81,997

SEE REPORT OF INDEPENDENT AUDITORS

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ (8,713)	\$ (20,598)
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Assessments receivable	(2,060)	(911)
Prepaid expenses	50	(2,473)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,334)	(1,453)
Prepaid member assessments	(2,032)	2,122
	<u>(14,089)</u>	<u>(23,313)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
	<u>(14,089)</u>	<u>(23,313)</u>
NET INCREASE (DECREASE) IN CASH	(14,089)	(23,313)
CASH, at beginning of year	65,348	88,661
CASH, AT END OF YEAR	<u>\$ 51,259</u>	<u>\$ 65,348</u>
Supplemental Disclosure:		
Income taxes paid	<u>\$ 1,769</u>	<u>\$ 263</u>

SEE REPORT OF INDEPENDENT AUDITORS

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE AND PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ocean Dunes Villas Condominium Association, Inc. is a statutory association incorporated and existing under the laws of the State of South Carolina. The purpose of the Association is the administration, maintenance, management, and ownership and control of the common and limited common areas of Ocean Dunes Villas, a condominium development consisting of thirty-four (34) residential units located in Myrtle Beach, South Carolina. The Association began its operations in 1981.

Basis of Accounting:

The financial statements were prepared utilizing the accrual basis of accounting with revenues being recognized when they are billed or due and expenses being recognized when the expense is incurred.

Common Property:

Real property owned by individual unit owners in common and improvements made by the Association to such property are not capitalized in the financial statements. All expenditures for real property common elements and improvements are reflected as an expense in the period incurred. Common property elements not recognized as assets in the financial statements consist primarily of access driveways and parking areas, and a swimming pool facility.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH AND CREDIT CONCENTRATIONS

Cash consists of balances on deposit (including interest-bearing deposits) with financial institutions. The balances on deposit at each financial institution are insured up to \$250,000 (100,000 at December 31, 2007) by the Federal Deposit Insurance Corporation (FDIC). There were no uninsured balances at December 31, 2008 and 2007.

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. ASSESSMENTS CHARGED TO UNIT OWNERS

Monthly assessments to unit owners ranged from \$393 to \$547 in 2008 and from \$385 to \$537 in 2007.

The Association's policy is to retain legal counsel and place liens on units of members whose assessments are over ninety (90) days delinquent. As of December 31, 2007, no allowance for uncollectible accounts had been provided in the financial statements because probable uncollectible amounts were considered immaterial. At December 31, 2008, the Association recorded an allowance for doubtful accounts in the amount of \$6,771 for probable future uncollectible accounts.

The annual budget and owners' assessments are determined by the Board of Directors to provide for current operating expenditures and required replacement funds. The Association retains excess operating funds at the end of each year, if any, for use in the subsequent year.

NOTE 4. INCOME TAXES

Under the provisions of the Internal Revenue Code, the Association is allowed to elect each year to file as an eligible Section 528 homeowners association, thereby excluding exempt function income from taxation, or file as an ordinary taxable corporation. For the years ended December 31, 2008 and 2007, the Association elected to file as an eligible homeowners association in order to minimize income taxes.

As of January 1, 2008, the Association adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48") which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with FASB No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Management has analyzed its various federal and state filing positions and believes that the Organization's income tax filing positions and deductions are well documented, supported and contain no uncertain tax positions. Additionally, management believes that no accruals for tax liabilities, interest or penalties are required. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. The years 2005 through 2008 remain open to examination under federal statute.

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents provide that the Association accumulate funds for future major repairs and replacements of the specific components of common property, including personal property. As of December 31, 2008 and 2007, the Association had cumulatively budgeted funds for future major repairs and replacements of \$36,833 and \$46,178, respectively. The amounts of cash designated for future major repairs and replacements at December 31, 2008 and 2007 were also \$36,833 and \$46,178, respectively. These cash amounts are held in a separate account and are generally not available for operating purposes. It is the Association's policy that interest earned on the separate cash balance is generally allocated to the replacement fund.

The Board of Directors and the Association's property manager conduct a biannual study to estimate the remaining useful lives and the replacement costs of common property components. The Association is funding for such future major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously designated for future major repairs and replacements. Because actual expenditures may vary from estimated future expenditures, and the variations may be material, amounts designated for future major repairs and replacements may not be adequate to meet all future needs for major replacements and repairs. If additional funds are needed, the Association has the right, subject to appropriate approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 6. RELATED PARTY TRANSACTIONS

Some owners of the Association's property manager, The Noble Company of South Carolina, LLC, also share some ownership in CRM of the Carolinas, LLC, and Resort Design Services, LLC. During the years ended December 31, 2008 and 2007, the Association engaged one of these entities (CRM of the Carolinas) for various repair, improvement, and maintenance services. During the years ending December 31, 2008 and 2007, the Association paid expenses totaling \$11,353 and \$5,610, respectively, to CRM of the Carolinas, LLC.

Andrew C. Thompson, CPA

Certified Public Accountant and Auditor

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

To the Board of Directors and Members
Ocean Dunes Villas Condominium Association, Inc.
Myrtle Beach, South Carolina

The supplementary information on future major repairs and replacements on Page 11 is not a required part of the basic financial statements of the Association but is presented as supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Myrtle Beach, South Carolina
June 15, 2009

Andrew C. Thompson, CPA

OCEAN DUNES VILLAS CONDOMINIUM ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS**

December 31, 2008

(Unaudited)

The Board of Directors and the Association's property manager conduct an biannual study to estimate the remaining useful lives and the replacement costs of common property components. Replacement costs were based on estimated costs to repair or replace the common property components at the time of the annual study.

The following information is based on the study and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Current Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Designated for Future Major Repairs/ Replacements December 31, 2008</u>
Roofs - flat and shingles	2 - 11	\$ 60,420	\$ 13,167
Pool furniture and equipment	-	8,000	1,743
Pool shell resurfacing	-	7,049	1,536
Pool deck resurfacing	1	4,069	887
Hallway Carpeting	4	8,034	1,751
Parking area and driveway	-	7,500	1,634
Painting and waterproofing	-	60,000	13,076
Other	1	13,944	3,039
		<u>\$ 169,016</u>	<u>\$ 36,833</u>

SEE REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION